

REASONABLENESS AND THE MEANS OF PRODUCTION

by

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ABSTRACT

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Although John Rawls's work has been incredibly influential in political philosophy, the question of how Rawls's principles of justice would be realized in the institutions of a just society has only recently received significant attention. Stated most clearly in *Justice as Fairness: A Restatement*, Rawls discusses five regimes, only two of which are compatible with justice as fairness: liberal socialism and property-owning democracy. Rawls argues that both regime types can satisfy his principles of justice and choosing which regime to institute depends on the culture of the nation in question. In this essay, I argue that although both liberal socialism and property-owning democracy can conform to Rawls's principles of justice, we have reason to favor the former over the latter. I focus on a key Rawlsian concept, reasonableness, and track its development in the two regime types. I argue that liberal socialism has mechanisms in place to support the reasonableness of citizens over time that property-owning democracy lacks. Therefore, *ceteris paribus*, we ought to prefer liberal socialism.

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To  
my parents  
for all their help

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## Introduction

The publication of John Rawls's *A Theory of Justice* in 1971 reinvigorated philosophers' investigations into justice and its application in society. Yet, many misunderstood Rawls's original work, interpreting it as a defense of welfare-state capitalism. In the revised edition (1999), Rawls proclaimed that had he rewritten the book, "another revision I would now make is to distinguish more sharply the idea of a property-owning democracy from the idea of a welfare state."<sup>1</sup> This distinction is made most clear in Rawls's final work, *Justice as Fairness: A Restatement*, wherein he discusses two regimes compatible with his conception of justice: property-owning democracy and liberal socialism.<sup>2</sup>

In the past decade, there has been an increasing focus on applying Rawls's principles of justice to the basic structure of society, including the main institutions of the economy.<sup>3</sup> In this essay, I wish to contribute to this debate, giving one reason why we might prefer a liberal socialist regime over a property-owning democracy. My argument is as follows:

- (1) To institute a just regime, we must choose to institute either a property-owning democracy or a liberal socialist regime.
- (2) *Ceteris paribus*, we ought to choose whichever regime type is more stable.
- (3) A central contributor to the stability of a regime is that the regime promotes "reasonableness" in citizens and discourages "unreasonableness".

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<sup>1</sup> John Rawls, *Theory of Justice: Revised Edition*, (Cambridge: Belknap/Harvard University Press, 1999), xiv.

<sup>2</sup> John Rawls, *Justice as Fairness: A Restatement*, ed. Erin Kelly (Cambridge: Belknap/Harvard University Press, 2001), 136-138.

<sup>3</sup> I take the four preeminent works pushing this focus to be: William Edmundson, *John Rawls: Reluctant Socialist*, (Cambridge: Cambridge University Press, 2017), Alan Thomas, *Republic of Equals: Predistribution and Property-Owning Democracy*, (New York: Oxford University Press, 2017), Martin O'Neill and Thad Williamson, ed., *Property-Owning Democracy: Rawls and Beyond*, (New Jersey: John Wiley & Sons, 2012), and John Tomasi, *Free Market Fairness*, (Princeton: Princeton University Press, 2012).

(4) Liberal socialism does a better job in promoting reasonableness and discouraging unreasonableness than a property-owning democracy.

(5) Therefore, *ceteris paribus*, we ought to choose to institute a liberal socialist regime.

This paper will attempt to show the soundness of the above argument, focusing on premises three and four. So that this paper does not run too long, I simply assume the truth of premises (1) and (2).<sup>4</sup> In the following section, I will explain the concept of reasonableness, as well as its relation to the stability of a regime, arguing for the acceptance of premise (3). In section II, I will explain the distinction between liberal socialism and property-owning democracy. Property-owning democracy has two different formulations, a “liberal market” variety, and a “democratic corporatist” one. Because the liberal market version is the most discussed variety of property-owning democracy, I focus on describing its key features. In section III, I will show how reasonableness can be compromised in a liberal market property-owning democracy. Next, in section IV, I discuss democratic corporatism, detailing its differences from liberal market property-owning democracy, and show how it too falls short of promoting reasonableness and discouraging unreasonableness. Finally, in section V, I will show how the problems I pointed out in both formulations of property-owning democracy do not arise in a liberal socialist regime. These three sections will provide a strong reason to accept premise (4). Thus, if my arguments are sound, all things being equal, we have a strong reason to accept my conclusion and prefer a liberal socialist regime over a property-owning democracy.

One minor point that I need to make clear is that some of the examples that I use across sections III and IV do not necessarily occur in a property-owning democracy. That is, one might

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<sup>4</sup> Regarding premise one, there may be other regime types that arguably are consistent with Rawls’s principles of justice, such as the one proposed in John Tomasi’s *Free Market Fairness*. For the purposes of this paper, I am restricting my arguments to just the two regimes explicitly mentioned by Rawls.

reject some of my examples by arguing that there would be a policy in place in a property-owning democracy that prevents my worry. I do not mean, however, to use the examples as necessary problems that will arise, but rather to use them to point out a particular trend within property-owning democracy. The trend may be instantiated in the examples I use, but it can also be instantiated in various other ways. Thus, the philosophical bite of my arguments should not be drawn from particular examples, but from the trends that they instantiate – trends that I believe are inherent in property-owning democracy and cannot be removed.

## **I. Reasonableness and Stability**

To start my argument, I will explain Rawls's concept of reasonableness. In defining a political and normative conception of citizens, Rawls stresses that persons should be construed as both reasonable and rational. Defining the latter concept first, agents are said to be rational when they "adopt the most effective means to ends, or select the more probable alternative, other things being equal."<sup>5</sup> Rational agents, however, need not be selfish, as they may have interests that promote the good of others, and may act in a way that promotes the good of others. That is, they need not lack "moral sensibility" altogether. Purely rational agents, however, lack the particular moral sensibility to promote fair terms of cooperation.<sup>6</sup> Regarding reasonableness, agents are said to be reasonable when, "they are ready to propose principles and standards as fair terms of cooperation and to abide by them willingly, given the assurance that others will likewise

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<sup>5</sup> John Rawls, *Political Liberalism: Expanded Edition*, (New York: Columbia University Press, 2005), 50.

<sup>6</sup> *Ibid.* 51.

do so.”<sup>7</sup> Put another way, an agent is reasonable when she treats others with respect and reciprocity.<sup>8</sup>

It may be the case that what is rational conflicts with what is reasonable. For example, the pursuit of one’s goals may fail to consider the interests of others or go directly against them. Or, the proposing of fair terms of cooperation may make the pursuit of one’s own ends more difficult. In such cases, Rawls believes that a reasonable individual is one who gives priority to the demands of reasonableness over the demands of rationality so long as doing so does not involve excessive “strains of commitment” and she has reason to think others would likewise treat her reasonably.<sup>9</sup>

An important part of reasonableness is that one interacts with others on the basis of reciprocity. Yet, to interact with another person on the basis of reciprocity is not merely to act in ways that bring about mutual advantage. Rather, the criterion of reciprocity is: “Our exercise of political power is proper only when we sincerely believe that the reasons we offer for our political actions may reasonably be accepted by other citizens as a justification of those actions.”<sup>10</sup> This does not mean that a reasonable individual needs to present terms to others that others think are the best. It only requires that one give reasonably fair terms. So, for example, several individuals might be discussing fair terms of cooperation, and although the terms chosen might not be everyone’s favorite, everyone agrees that those terms are fair. Summarizing what

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<sup>7</sup> Ibid. 49.

<sup>8</sup> Another important feature of reasonable individuals is that they accept “the fact of reasonable pluralism”. Rawls believes that a permanent feature of democratic societies is that different individuals will come to hold different reasonable comprehensive doctrines – that is, different reasonable value systems (for example, Christianity, Buddhism, Utilitarianism, etc.). For the purposes of my paper, this feature of reasonableness is not relevant. See Ibid. 36.

<sup>9</sup> Rawls, *Justice as Fairness*, 7.

<sup>10</sup> Rawls, *Political Liberalism*, xlv.

has been said so far, a reasonable person gives reasons for her actions that use political power which can be accepted by other reasonable individuals.

Crucially, reasonableness has implications for the stability of a society. Stability, very broadly understood, is the ability for a society to reproduce itself over time. That is, when we pick the principles of justice that structure our society, those principles will continue to hold throughout various generations. An unstable society might be one where, say, the principles of justice as fairness were once central, but over time they were abandoned in favor of libertarian principles of justice. Such a society would be unstable because its central principles of justice changed. From this, it should be obvious to see how reasonableness can affect stability. After all, should unreasonableness be allowed to flourish in individuals, such people would act without respect and reciprocity towards their fellow citizens. This, in turn, would endanger the democratic values and stability of such a society as individuals would come to ignore or act against the interests of fellow citizens. And should this happen, the principles of justice could drastically change over time.

Some philosophers have argued that the stability of a society is only ensured if citizens have an “ethos” that corresponds to the principles of justice of that regime. For instance, Michael Titelbaum argues that the “citizens of a just society could not support that society consistently over time unless they displayed an individual ethos; and second, that absent such an ethos the just society would not exhibit mutual respect and fraternity that Rawls takes to be among its important attractions.”<sup>11</sup> Put simply, Titelbaum believes that it is implausible that a Rawlsian just society could be stable, exhibiting mutual respect and fraternity between its members, without a

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<sup>11</sup> Michael G. Titelbaum, “What Would a Rawlsian Ethos of Justice Look Like?” *Philosophy and Public Affairs* 36, no. 3 (2008), 301.

general ethos, accepted by each citizen, promoting such behavior. Such an ethos would contain correlates of both of Rawls's principles of justice.<sup>12</sup>

The two opposite ends of the debate about the scope of reasonableness are as follows: under a strict Rawlsian interpretation, the scope of the importance of reasonableness to stability lies solely in the political sphere. When individuals hold political power over others, they must propose fair terms of cooperation that they believe any reasonable individual would accept. As mentioned before, these need not be the preferred terms of those reasonable individuals, but merely terms that those individuals would find reasonable to accept. Alternatively, the Titelbaum interpretation holds that the scope of reasonableness must expand to all aspects of life such that individuals have a general ethos of justice that reflects the two principles. In promoting a liberal socialist regime, I believe that a middle ground can be achieved in this debate. In discussing liberal socialism in section V, I show how such a regime expands the scope of the importance of reasonableness to stability to the economic sphere as well as the political sphere. Thus, individuals who hold power over others in the workplace must propose fair terms of cooperation that any reasonable individual would accept.

Such a middle ground partially alleviates the worries that Titelbaum raises while remaining a realistic, achievable goal. One such worry is that it is psychologically possible to imagine individuals acting with a sense of justice in the public sphere only if such behavior stems from a similar individual ethos that governs private behavior as well.<sup>13</sup> While I agree that it seems implausible that individuals act justly in public without being similarly motivated in other, private spheres, I think Titelbaum goes too far in requiring most individuals have a just ethos for the regime to be stable. The liberal socialist proposal is to expand reasonableness to the

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<sup>12</sup> Ibid. 302.

<sup>13</sup> Ibid. 299.

association within which we spend most of our adult lives: the workplace. As will be elaborated later, doing so will give individuals rational reasons to act reasonable in the hopes that such reasonableness will transfer to the public sphere. All this is done, however, without the need that individuals be motivated by an ethos of justice.

To be more precise about how reasonableness supports the stability of a regime, Rawls introduces the idea of a reasonable overlapping consensus. Rawls explains the term by stating that the idea of such a consensus is that:

the political conception of justice is worked out first as a freestanding view that can be justified *pro tanto* without looking to, or trying to fit to, or even knowing what are, the existing comprehensive doctrines... When the political conception meets these conditions and is also complete, we hope the reasonable comprehensive doctrines affirmed by reasonable citizens in society can support it, and that in fact it will have the capacity to shape those doctrines toward itself.<sup>14</sup>

In other words, a reasonable overlapping consensus occurs when a reasonable political conception of justice is prevalent in the society and is supported by reasonable citizens from their own points of view, and such citizens hold a majority.<sup>15</sup> A reasonable overlapping consensus is a major aspect of formulating a realistic and stable well-ordered society.<sup>16</sup>

One last point that I want to discuss is stability for the right reasons. Rawls distinguishes stability for the right reasons and stability for the wrong reasons based on the connection individuals have to the reasonable overlapping consensus. Stability for the right reasons occurs

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<sup>14</sup> Rawls, *Political Liberalism*, 389.

<sup>15</sup> For the purposes of this paper, I will skip talking about reasonable comprehensive doctrines as they don't play an important role in my arguments. Comprehensive doctrines are all-encompassing value systems that individuals can hold. Reasonable comprehensive doctrines are comprehensive doctrines held by reasonable citizens that treat other citizens as free and equal and with respect and reciprocity. Furthermore, reasonable comprehensive doctrines support an overlapping consensus because such individuals would support the consensus from their own reasonable beliefs and values. For brevity, I cut out the middle-man and simply say that reasonable citizens support an overlapping consensus. I do not think talk of comprehensive doctrines plays any important role in my arguments that cannot be restated in terms of reasonable individuals.

<sup>16</sup> *Ibid.* 38-39. Another major aspect is that unreasonable comprehensive doctrines are discouraged from gaining traction in society

when support for the political conception of justice arises from within the reasonable beliefs of citizens. Citizens affirm the principles of justice in an overlapping consensus because they agree with those fundamental principles of justice. Alternatively, stability for the wrong reasons occurs when there is no shared political conception of justice. We might have a mere *modus vivendi* where there is stability only in so far as there is a balance of power.<sup>17</sup> For example, we might have a society filled with rational egoists who support the conception of justice only because it benefits them more than any feasible alternative. Should things change in the society, however, the egoists would promptly support a regime change that benefits them. Other ways in which there might be stability for the wrong reasons is if there is coerced stability, as is the case in Hobbes's *Leviathan*, or in the case of manipulated stability, as in the case of Plato's *Republic*.<sup>18</sup> Importantly, stability for the wrong reasons involves society resting on a precarious ledge held together only by contingent forces. Should there be a market downturn, or should the noble lie be exposed, individuals who are not deeply committed to the principles of justice may quickly abandon them in favor of alternative principles that can help bring about their ends.

To summarize what has been said in this section, reasonable individuals follow the criterion of reciprocity and propose fair terms of cooperation that they expect other reasonable individuals to follow. Such individuals, if they make up a majority of citizens in a society, uphold a political conception of justice through an overlapping consensus and bring stability to that regime. Stability for the right reasons occurs when reasonable citizens support the political

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<sup>17</sup> Ibid. 391-392.

<sup>18</sup> There is coerced stability in the *Leviathan* in that people must come together to form society on the threat that a state of nature will be a brutal and miserable existence. Manipulated stability in the *Republic* is best seen at the end of Book III with the myth of the metals. The myth would be propagated among the citizens to make them believe that the hierarchical order of the proposed society is just.

conception of justice in the overlapping consensus because they share the fundamental ideas that make up that conception of justice.

With all this having been said, I hope to have given proper support for accepting premise (3) of my overall argument from the introduction: a central contributor to the stability of a regime is that the regime promotes reasonableness in citizens and discourages unreasonableness. The rest of the paper will focus on arguing for premise (4): liberal socialism promotes reasonableness and discourages unreasonableness in individuals more robustly than does property-owning democracy. But first, it is important to understand what institutions are central to liberal socialism and property-owning democracy. This will be the focus of the next section.

## II. The Two Regime Types

Rawls's conception of justice, justice as fairness, has two principles:

- (a) Each person has the same inalienable claim to a fully adequate scheme of equal basic liberties, which scheme is compatible with the same scheme of liberties for all; and
- (b) Social and economic inequalities are to satisfy two conditions: first, they are to be attached to offices and positions open to all under conditions of fair equality of opportunity; and second, they are to be to the greatest benefit of the least-advantaged members of society (the difference principle).<sup>19</sup>

The two principles are closely tied to an individual's two moral powers: "a capacity for a sense of justice", and "a capacity for a conception of the good". A capacity for a sense of justice is a capacity "to understand, to apply, and to act from the public conception of justice which characterizes the fair terms of social cooperation," while a capacity for a conception of the good is the capacity, "to form, to revise, and rationally to pursue a conception of one's rational advantage or good."<sup>20</sup> It is in virtue of these two powers, Rawls believes, that citizens can be free

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<sup>19</sup> Rawls, *Justice as Fairness*, 42-43.

<sup>20</sup> Rawls, *Political Liberalism*, 19.

and equal, and be normal and fully cooperating members of society over a complete life.<sup>21</sup> These two moral powers are intimately connected to the idea of citizens as rational and reasonable. Citizens are rational in that they adopt effective means to their ends. To do this, they must have a conception of the good – a conception to formulate ends and ways to pursue them. Similarly, citizens are reasonable in that they propose fair terms of social cooperation to others. In order to do so, citizens must use their capacity for a sense of justice in formulating principles that will guide fair social cooperation.

Because the two moral powers are so crucial to the conception of citizens as free and equal, their ability to use them must be guaranteed. Thus, the first principle, the equal basic liberties, is proposed to “guarantee equally for all citizens the social conditions essential for the adequate development and the full and informed exercise of their two moral powers.”<sup>22</sup>

Likewise, the second principle of justice is also tied to the two moral powers of citizens. Rawls elaborates, saying, “income and wealth are general all-purpose means required to achieve a wide range of (permissible) ends, whatever they may be, and in particular, the end of realizing the two moral powers and advancing the ends of the (complete) conceptions of the good that citizens affirm or adopt.”<sup>23</sup>

Large inequalities in income and wealth can threaten the full use of the two moral powers by threatening the “fair” equality of opportunity. Rawls distinguishes between fair and formal equality of opportunity in that the latter can be achieved merely by guaranteeing, through law, no one be barred or discriminated against in pursuing certain opportunities (so long as those individuals are qualified or adequately skilled for those opportunities). Yet, some opportunities

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<sup>21</sup> Rawls, *Justice as Fairness*, 169.

<sup>22</sup> *Ibid.* 112.

<sup>23</sup> *Ibid.* 169.

may have other obstacles, like requiring exceedingly high income to achieve (say running for office). Thus, although no one is strictly prevented from pursuing such opportunities, realistically, those opportunities are out of reach for those that do not have a high income. Because of this, Rawls states that, “fair equality of opportunity is said to require not merely that public offices and social positions be open in the formal sense, but that all should have a fair chance to attain them.”<sup>24</sup> In other words, individuals equally motivated and skilled have an equal chance at obtaining some social position or seizing an opportunity, and furthermore, all have an equal opportunity to develop their talents and skills to compete for said positions.

With all this in mind, Rawls argues that welfare-state capitalism fails to satisfy the two principles of justice. While welfare-state capitalism has some concern for the formal value of the political liberties, it permits the concentration of wealth and power in the hands of the few over time. This concentration fails to realize the fair value of the political liberties, an integral part of the first principle of justice.<sup>25</sup> And while there is some concern for equality of opportunity, welfare-state capitalism ignores the difference principle, offering merely a social minimum instead.<sup>26</sup> Property-owning democracy and liberal socialism both attempt to realize the two principles of justice by preventing such problems (and others) from arising, although they take somewhat different means to do so.

Importantly, Rawls argues that justice as fairness makes no guarantee over whether the means of production can be privately or socially owned. The two principles guarantee one’s right to personal property, as it is necessary for independence and self-respect, but go no further in

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<sup>24</sup> Ibid. 43.

<sup>25</sup> Briefly put, the fair value of the political liberties ensures that anyone equally skilled and motivated has an equal chance in influencing the government’s policies and attaining positions of authority, irrespective of their social class. For more, see Ibid. 46.

<sup>26</sup> Ibid. 137-8.

guaranteeing a “wider” scheme of property rights. Thus, private-property regimes and socialist regimes, which socialize non-personal property rights, can be made compatible with justice as fairness.<sup>27</sup>

To see how these two regimes differ, I’ll begin by defining liberal socialism. In his posthumously published *Lectures on the History of Political Philosophy*, Rawls cites four key elements to a liberal socialist regime:

- (a) A constitutional democratic political regime, with fair value of political liberties.
- (b) A system of free competitive markets, ensured by law if necessary.
- (c) A scheme of worker-owned business [*sic*], or, in part, also public-owned through stock shares, and managed by elected or firm-chosen managers.
- (d) A property system establishing a widespread and a more or less even distribution of the means of production and natural resources.<sup>28</sup>

I take elements (a) and (b) to distinguish liberal socialism from command economy socialism as seen in the USSR and similar countries. In this respect, it shares these two elements with western capitalist democracies. Elements (c) and (d), I believe, are meant to distinguish liberal socialism from those capitalist regimes. A liberal socialist regime focuses on promoting worker-owned and worker-managed firms (worker-coops) as well as other forms of social ownership, while capitalist regimes maintain private-property relations. As we’ll see, property-owning democracy shares all of these elements, except (c) with liberal socialism. Thus, the key difference between the two regimes, and where I’ll focus my attention in this paper, is in how the two regimes structure firms and businesses.

Because worker-coops are an integral part of liberal socialism, it is important to have a clear definition of what kinds of firms are considered worker-coops. Derek Jones gives a definition of such firms by stating that a worker-coop is:

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<sup>27</sup> Ibid. 114.

<sup>28</sup> John Rawls, *Lectures on the History of Political Philosophy*, ed. Samuel Freeman (Cambridge: Belknap/Harvard University Press, 2007), 323.

An autonomous enterprise in which (a) many workers (or members) own stock, (b) ownership is widely distributed among the workers, who own much of the voting stock, (c) working-members participate in the enterprise's management and control, and (d) they share in the distribution of surplus, usually on the basis of work.<sup>29</sup>

This definition allows for worker-cooperatives to be flexible in how they structure the workplace. For example, (a) and (b) allow for worker-cooperatives to hire labor in much the same way that private firms do, when it is prudent to do so. A worker-coop might, say, need some temporary labor in constructing a new building, or obtaining some material in a different country. This sort of relation, however, is an exception, and most workers in a worker-coop relate to that firm in owning stocks.

Stocks tie into element (c) of the definition in that they give the worker a vote in the management of the firm. Importantly, the principle followed is “one worker, one vote” and not “one stock, one vote”. Thus, the ownership of stock will give a worker the right to vote in the firm but owning more stock on top of this will not give that worker more votes. This is different from a private firm in which individuals who own more stocks will have more votes. And lastly, the profits of a firm are usually divided among the workers based on their work rather than, as in private firms, on the ownership of stocks. How this division occurs is determined by the workers themselves, although usually, worker-coops tend to have a close range of salaries among its workers.<sup>30</sup>

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<sup>29</sup> Derek Jones, “American Producer Cooperatives and Employee-Owned Firms: A Historical Perspective,” in *Worker Cooperatives in America*, eds. Robert Jackall and Henry M. Levine (Berkeley: University of California Press, 1984), 37.

<sup>30</sup> For example, the pay discrepancy between managers and the *lowest* paid worker in Mondragon (one of the largest worker-coops in the world) ranged from 3:1 to 9:1. Meanwhile, the average CEO in America makes 271 times more money than the *average* paid worker in the firm. See David Herrera, “Mondragon: A For-Profit Organization that Embodies Catholic Social Thought,” *Review of Business* (25) no.1: 2004, 56-68; and Lawrence Mishel, and Jessica Schieder, *CEO Pay Remains High Relative to the Pay of Typical Workers and High-Wage Earners*, (Washington, DC: Economic Policy Institute, 2017).

Unlike private-property regimes, wherein the means of production are owned by individuals, worker-owned businesses in a liberal socialist regime preserve the power of workers by giving them the power to elect and remove their managers, thus controlling the directions of the firms. Within such firms, managers are expected to benefit the workers and the communities first, rather than their own interests.

Property-owning democracy is a rival regime to liberal socialism. William Edmundson states that “the fundamental difference between a property-owning democracy and liberal socialism is to be conceived in terms of rights privately to own major, socially significant means of production.”<sup>31</sup> While a liberal socialist regime prevents the private ownership of socially significant means of production, a property-owning democracy allows it.

What makes property owning-democracy distinct from welfare-state capitalism, according to Rawls, is that:

The background institutions of a property-owning democracy work to disperse the ownership of wealth and capital, and thus prevent a small part of society from controlling the economy... Property-owning democracy avoids this, not by redistribution of income to those with less at the end of each period, so to speak, but rather by the ensuring of the widespread ownership of productive assets and human capital (that is, education and trained skills) at the beginning of each period.<sup>32</sup>

The distinction here between the beginning and end of a “period” can be understood in the following way: whereas in a welfare state, one receives recompense for unfair or unlucky events after those events have taken place (say receiving unemployment benefits after being fired), a property-owning democracy ensures that everyone begins in such a way as to make such unfair/unlucky events either structurally impossible or greatly reducing the damage of those events.

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<sup>31</sup> Edmundson, *John Rawls: Reticent Socialist*, 50.

<sup>32</sup> Rawls, *Justice as Fairness*, 138.

Broadly speaking, there are two kinds of property-owning democracy: a “liberal market” version and a “democratic corporatist” version.<sup>33</sup> For the purposes of this section and the next one, I will focus my attention on liberal market property-owning democracy as I believe that type of regime is the one most favored by proponents of property-owning democracy (and I will refer to liberal market property-owning democracy simply as property-owning democracy).<sup>34</sup> I will, however, return to democratic corporatism in section IV. If my arguments against liberal market property-owning democracy in section III are successful, it would still leave open the possibility of alternative configurations of property-owning democracy. As such, a critique of democratic corporatist property-owning democracy will be needed. I will also briefly discuss democratic corporatism in section V in regard to worker-cooperatives in a liberal socialist regime, as I think there are some important insights that can be learned from democratic corporatism.

One prominent example of liberal market property-owning democracy comes from the writings of James Meade, from whom Rawls takes great inspiration.<sup>35</sup> Meade correctly points out that a mere boost in income for everyone (say, for example, by means of a system of universal basic income) is insufficient to prevent the massive injustices that may occur. He writes, “An unequal distribution of property means an unequal distribution of power and status even if it is prevented from causing too unequal a distribution in income.”<sup>36</sup> That is, the *ownership* of property in the hands of the few itself is cause for class division and the injustices that follow it.

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<sup>33</sup> For a distinction between the two, see Waheed Hussain, “The Most Stable Just Regime,” *Journal of Social Philosophy* 40, no.3 (2009), 412-433, especially section I.

<sup>34</sup> I take John Rawls, James Meade, Alan Thomas, Richard Krouse, Michael McPherson, Martin O’Neill, and Thad Williamson to all be proposing some sort of liberal market property-owning democracy.

<sup>35</sup> For another example of a possible property-owning democracy, see Bruce Ackerman and Anne Alstott, *The Stakeholder Society*, (New Haven: Yale University Press, 1999). Although Ackerman and Alstott do not explicitly define their view as a type of property-owning democracy, Alan Thomas believes that they work in the same tradition as property-owning democracy, and that their work has valuable lessons for the property-owning democracy (Thomas, *Republic of Equals*, 129).

<sup>36</sup> James Meade, *Equality, Efficiency, and the Ownership of Property* (London: Allen and Unwin, 1964), 39.

Richard Krouse and Michael McPherson, summarizing the policies of James Meade and building up from them, list several key institutions that a property-owning democracy would need. For example, there would need to be a strongly egalitarian inheritance law, financial arrangements that would significantly boost the returns and opportunities available to small savers, and strong government commitment to supporting equal opportunity in education.<sup>37</sup> Furthermore, full employment would be maintained by the government and most workers would derive at least part of their income from the ownership of shares in firms. This would guarantee an appropriate social minimum and prevent individuals from being forced to sell their labor power to survive.<sup>38</sup> But, as Krouse and McPherson note, such institutions are insufficient for protecting individuals from contingencies such as brute market bad luck. For example, a dip in the stock market may disadvantage an individual independent from any actions the individual took. Thus, some institutions found in welfare states that reduce inequality at the end of a period would need to be put in place as well.<sup>39</sup>

Advocates of property-owning democracy are also aware of the threat that money has to the political liberties and thus have several institutions in place to guarantee their fair value.

Martin O'Neill and Thad Williamson suggest that one of the three key institutional features of a property-owning democracy is a set of institutional safeguards against the corruption of politics:

A [property-owning democracy] would seek to limit the effects of private and corporate wealth on politics, through campaign finance reform, public funding of political parties, public provision of forums for political debate, and other measures to block the influence of wealth on politics (perhaps including publicly funded elections).<sup>40</sup>

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<sup>37</sup> Richard Krouse, and Michael McPherson, "Capitalism, 'Property-Owning Democracy,' and the Welfare State," in *Democracy and the Welfare State*, ed. Amy Gutmann, (Princeton: Princeton University Press, 1988), 83.

<sup>38</sup> *Ibid.* 91.

<sup>39</sup> *Ibid.* 95.

<sup>40</sup> Martin O'Neill, and Thad Williamson, "Property Owning Democracy and the Demands of Justice." *Living Reviews in Democracy* 1, (2009), 5.

These institutional changes alone are compatible with, although not necessary for, welfare-state capitalism. Still, even if these policies were adopted in a welfare-state capitalist society, vast quantities of wealth may still threaten the fair value of the political liberties. For example, although the above reforms may allow anyone to participate in running for office despite their economic class, rich individuals may have more time to do so in virtue of the fact that they are rich and can take more time off. Two individuals equally motivated, one from a lower economic class and one from a higher economic class, would therefore not have equal opportunity in influencing the government's policies. Thus, even with such reforms, a welfare-state capitalist regime would not preserve the fair value of the political liberties. Seeing this, the property-owning democrat suggests that we ought to distribute wealth more equally in society through, for example, decentralizing capital among the citizenry in order to ameliorate this problem.

To conclude, I want to stress that the two regimes are, in the end, similar. I have devoted a larger amount of time in describing the various institutions that would need to exist in property-owning democracy, but there is no reason to suppose that many of those same institutions could not exist under liberal socialism. The key difference between the two regimes, again, is in how they distribute and define property rights.

### **III. Liberal Market Property-Owning Democracy and Reasonableness**

In this section, I will present my criticisms of liberal market property-owning democracy. Broadly, while such a regime focuses on dispersing the means of production among the citizenry, it does so in a way that fails to eliminate class antagonism within the workplace. This, in turn, allows for unreasonableness to grow among citizens, threatening the stability of the regime.

To begin, my first criticism of stems from a critique by John Roemer regarding one way in which the means of production may be publicly owned:

Consider the following: the government distributes a portfolio of stock in the nation's firms to each young adult at age twenty-one and permits the person to trade that stock as she wishes during her life; she would collect the dividends that her portfolio entitles her to, but she would be forbidden to cash in any stock. At death, her portfolio returns to the public treasury... But during their lives, citizens would have the power, at least collectively, to influence firms to maximize profits in a way that some might feel resembles capitalism too much to be called public ownership: citizens would exercise their influence through selling stock when they thought the firm had poor profit prospects, which might force the firm to cut wages, lay off workers, or take other actions identified with capitalism.<sup>41</sup>

The regime that Roemer suggests, if we flesh it out a bit more, seems close to a property-owning democracy. The means of production are widely distributed across the population in the form of firm shares such that each individual collects dividends that supplement her income. It might be the case, if one is lucky, that the shares one owns happen to be in the firm one works in, but this is not guaranteed. Roemer's worry arises when, because of the way the government distributes the stock portfolio, one does not own shares in the firm one works in. An individual might find it in her best interest to trade her stock for other stocks or income, causing firms to lay off workers or cut wages in response. While she might value the livelihood of the workers that would get laid off if she exchanged the shares, it is feasible that she cares for her self-interest more.

The exchange of shares might not have anything to do with the poor performance of a business. Say, for example, a new firm is quickly gaining momentum in the market and individuals want to buy shares in that firm. In order to do so, those individuals might need to sell or exchange the shares they have in other firms to afford those new shares. In doing so, they can adversely affect firms that were doing fine until suddenly a large amount of shares are being sold off. The issue here is not the market *per se*, or that some firms fail. Rather, the central issue that I

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<sup>41</sup> John Roemer, *A Future for Socialism*, (Cambridge: Harvard University Press, 1994), 19-20.

will be focusing on throughout this entire section is that an individual who has no direct relationship with the firm, outside of owning some shares, can drastically affect the livelihood and status of individuals within that firm. And while the actions of one individual might not affect the stability of a regime, countless exchanges across the entire economy would surely have an impact.<sup>42</sup>

The property-owning democrat, however, may amend the situation slightly. Suppose that the ownership of stocks will allow citizens to reap the passive income that their stocks provide, as well as vote in company decisions, but citizens are not allowed to sell their stocks. Rather, a branch of the government will focus on distributing shares such that every citizen will have enough shares to receive a livable passive income. Yet even if this is a feasible case, the mere ownership of such shares grants an individual an immense amount of power should she cooperate with other shareholders. If enough shareholders band together, they can hire managers that would promote their interests over those of the workers. The primary interest of the shareholders would be profits, and the interests of the workers may be things like having a stable job with amicable conditions and good pay. Because shareholders would have all the power in the firm, there would be nothing stopping them from putting their interests over the interests of the workers.<sup>43</sup> For example, the shareholders may restructure the company so that they get a larger share of the profits while worker wages and conditions are reduced. If such a case were to arise, and the workers disapproved of the shareholders actions to increase profits at the cost of amicable working conditions, such actions would clearly be unreasonable, especially if the

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<sup>42</sup> One might object to my argument so far by arguing that workers who lose their jobs as a result of these market interactions are not left off that bad. After all, they too hold shares, and thus have a passive income to support them. I'll answer this objection later in this section when I talk about the power of exit.

<sup>43</sup> When I say "all the power" I mean all the power insofar as it doesn't conflict with any of the laws of the society. Shareholders are not absolute monarchs, but nonetheless, they still hold a large amount of power in firms.

workers had no way to redress those actions. Similar to the case above, these micro-decisions on their own would probably not affect the stability of the regime in any meaningful way. If, however, such unreasonable actions were repeated on a large scale, there could be dire consequences for the stability of the regime.

This is because the actions of the shareholders can be seen as lacking reciprocity. Actions involving, say, removing safety regulations to increase profits, could not be justified to the workers who are affected. And if shareholders fail to act in accordance with the criterion of reciprocity to their workers, it is difficult to see how they could act in accordance with the criterion of reciprocity when it comes to their fellow citizens.

To explain this further, I follow Elizabeth Anderson in holding that firms can be seen as “private governments” – organizations that may issue orders in various spheres of life backed up by sanctions.<sup>44</sup> I believe that the micro-decisions within firms bear important consequences on the societies that they are in, not only through various economic decisions, but also through creating feedback loops of reasonableness and unreasonableness. When shareholders make business decisions about the firms in which they have shares in, occasionally their rational and reasonable motivations may conflict. It might be in one’s best interest enforce unreasonable decisions if it means increasing the profits of the company. Even if one is committed to justice as fairness overall and treating other people with reciprocity, the tension in such economic decisions may cause one to wane in their commitment to justice. After all, most people spend more time making economic decisions than political ones. So, if there are more economic decisions that push individuals towards acting unreasonably than there are political decisions that help those individuals reaffirm support for being reasonable, then over time, individual will tend

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<sup>44</sup> See Elizabeth Anderson, *Private Government: How Employers Rule Our Lives (and Why We Don’t Talk about it)*, (Princeton: Princeton University Press, 2017), especially chapter 2.

to become more unreasonable. And once this effect starts, it speeds up as individuals who already feel distant from justice will be more inclined to make unreasonable decisions. Put simply, when profits are on the line, economic decisions that are rational yet unreasonable can cause individuals to wane in their support of reasonableness and justice. If all of this is the case, then it seems that such shareholders could come to support the regime they live in for the wrong reasons, and not as a realization of principles they deeply hold. Individuals may support a property-owning democracy insofar as it is the regime that grants them shares in various firms and thus a passive income. Yet the support goes no further.

To be clear, however, I am not saying that shareholders who fail to act in accordance with the criterion of reciprocity are unreasonable and threaten the stability of the regime *per se*. Rather, I believe that such events can and would occur innumerable times, and it is because such events can happen frequently that the stability of the regime is threatened. I think this worry exists even if we begin in a well-ordered society where everyone firmly holds the ideals of justice as fairness. Overtime, shareholders may abandon those ideals as the rational profit interests outweigh their reasonableness. Alternatively, the next generation of shareholders may be unable to properly develop a sense of justice because of the rational and unreasonable motives in such workplaces. Property-owning democracy leaves room open for such events and can therefore lead to instability.

The supporter of property-owning democracy can reply by suggesting that the above case would be incredibly rare. If the shares are decentralized enough, the possibility of shareholders forming coalitions to leverage their power and extract more money from a firm would never occur. But, this seems like a problematic reply in two ways. First, even if very unlikely, these coalitions could still arise. With technological trends, it is easier now than ever (and presumably

it will only become easier) to connect with individuals across large distances. Thus, although shares in a company may be incredibly decentralized, coalitions could still arise. But, the property-owning democrat might say, if the shares were split amongst thousands of individuals, would they not be unable form effective coalitions? I can grant the supporter of property-owning democracy this assumption (although I am hesitant to accept it). Still, this would lead to a second objection inspired by Tom Malleson.

Malleson argues that in a property-owning democracy there would still be a powerful class of investors – managers of large banks, insurance companies, institutional funds, and directors of corporations – even if shares are decentralized.<sup>45</sup> The thought goes as follows: many citizens hold shares in some firm, say a bank. Yet, these citizens cannot play an active role in managing the bank because they have their own jobs and lives to attend to. Thus, a manager of the bank is appointed by those shareholders to run the bank in a way that the shareholders would agree to, and in turn this manager would have access to a large amount of funds and resources to use. Yet, Malleson argues, the thousands of small shareholders who formally control the shares of a company may be too dispersed to effectively monitor the management. In this case, the wide dispersal of stocks among a number of individuals is not the cause of difficulty in effective monitoring *per se*. Rather, it is because property-owning democracy makes no guarantees that one has shares in firms nearby or solely in a few firms. In fact, I do not think property-owning democracy can promise this while maintaining a commitment that every individual receives a livable passive income through shares. This is because individuals may live in areas with relatively few large firms that are viable for share decentralization. Such individuals would therefore need to have shares in firms that are far removed from their current location. Thus,

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<sup>45</sup> Tom Malleson, “Rawls, Property-Owning Democracy, and Democratic Socialism.” *Journal of Social Philosophy* 45: no. 2 (2014), 233.

individuals may have a plethora of shares in firms that are far from the shareholder's community. These obstacles make it difficult to see how such shareholders may be motivated enough to effectively monitor the workplace.<sup>46</sup>

Thus, such investors or managers would find themselves free to allocate vast quantities of money how they see fit. One such way would be in the form of capital flight or capital strike, pressuring the government to enforce policies that a small group of powerful investors deem suitable.<sup>47</sup> By capital flight, I have in mind cases wherein a firm may move locations, say from one region to another in the same country, where laws are more favorable for it in the latter region. Alternatively, capital strike involves the withholding of investment by a firm. For example, banks may refuse to provide loans to certain sectors of the economy, or businesses may refuse to open new jobs in a region. In such cases, managers and shareholders could use their economic power to attain unreasonable gains. By unreasonable gains, I mean gains that would in some way violate the criterion of reciprocity. For example, shareholders may put pressure on the government to relax work safety regulations, increasing the profits of the company but endangering the workers. In such a case, the workers would not accept the reasons the shareholders use to justify their actions. And, as stated above, because such actions are unreasonable, they may over time, if enough similar actions are taken by others, undermine the stability of the regime.

Malleon relieves the pressure of this objection towards the end of the paper, arguing that if a Rawlsian were truly committed to the fair value of political liberty, then she would insist that institutions be put in place so that a minority of investors would be unable to influence the

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<sup>46</sup> In comparison, worker-coops have widely dispersed shares, yet workers only hold shares in one firm, and it is the firm that they work at. Thus, such workers would be motivated enough to monitor the firm they have shares in.

<sup>47</sup> Ibid. 234.

government in such a way. Such measures would include capital controls, public banks, and/or participatory budgeting (as well as other institutions such as the ones mentioned by O’Neill and Williamson earlier)<sup>48</sup>. To elaborate, capital controls would involve things like transaction taxes that limit the amount of capital that would leave a society, public banks are banks that are owned and run by the government, and participatory budgeting involves democratic deliberation about how to allocate the government’s funds.

I think, however, that these policies would not be enough to alleviate Malleon’s worries. First, if all banks were made public, that would eliminate the possibility of capital flight or strike from banks, but leave every other kind of firm open to the possibility. Capital controls may eliminate capital flight from the overall society, as in the United States, but it is unclear whether it can prevent more local flights such as companies moving from Wisconsin to Illinois. Furthermore, capital controls would not stop capital strike as such measures would penalize firms for moving, but not from refusing service. And lastly, participatory budgeting would eliminate neither capital flight nor capital strike because if a firm would have the economic power to enforce its will on threat of flight or strike, deliberating on the matter would not make the issue disappear. All that would change is now the people of the society would be more aware of why their government’s budget was constrained as a result of the threat of capital flight or strike. Still, these measures would be a first step in the right direction. And while they would not eliminate the possibility of capital flight or strike, they would lower it.

One way to go farther than the above policies is to follow Alan Thomas who argues that capital flight or strike would be prevented in a property-owning democracy by the government. He states, “The role of the state is to intervene to break up monopoly control of capital in the

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<sup>48</sup> Ibid. 243.

interests of the fair value of the political liberties (and liberty as a whole) and the universal dissemination of human capital and civic virtue.”<sup>49</sup> While Malleeson’s case does not involve a monopoly, I think Thomas, and like-minded property-owning democrats, would be fine with using the state in the above mentioned scenario to prevent the unreasonable domination by the investor class. The state would do this by, say, breaking up the firm into smaller firms.

Yet, even if capital flight/strike was not possible to do by a single firm, it is possible that several firms may work together to accomplish the same goal. For example, imagine a local town is interested passing a law that increases the requirements for equipment inspections in manufacturing firms. A coalition of firms may arise in that town of manufacturing firms and threaten the government with capital flight or strike.<sup>50</sup> The coalition may, for example, close business for the day as a sign of protest and as a warning of things to come if the bill passes. This, I think, would be enough pressure to prevent the law from passing, and thus could pave the road for enforcing unreasonable actions. In such a case, property-owning democrats would not be able to resort to the state to break up the power of a large firm, as the coalition consists of already small firms. Property-owning democrats may attempt to pass legislation at a national level to prevent the threat of capital flight (such as seizing land and property of a firm that has moved outside of the society), although I think this still leaves room for capital strike.<sup>51</sup>

We can now take a step back to look at where the proponent of property-owning democracy finds herself. She must make the following choice: either the power of the firms rests

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<sup>49</sup> Thomas, *Republic of Equals*, 213.

<sup>50</sup> A firm may find it difficult to threaten capital flight. But, for the sake of the example, we can imagine that the businesses in question belong to larger chains that may more easily move firms if they need to.

<sup>51</sup> An example of such a policy can be seen in the UK Labour party’s ‘Right to Own’ policy. As Jeremy Corbyn explains, "Labour will look to create a 'Right to Own', giving workers facing a change of ownership or closure of a firm the [right of] first refusal in putting together a worker-owned alternative." That is, before a firm may be sold or closed, it must first ask whether the workers wish to buy it and transform it into a worker-coop. Ian Silvera. "Jeremy Corbyn Unveils 'Right to Own' John Lewis-style Employee Ownership Policy." *International Business Times UK*. September 16, 2016.

in the shareholders, or the power of the firms rests in the managers. If she picks the former, she opens herself up to the Roemer criticism where shareholders can be motivated to be unreasonable and pursue their monetary interests against the workers' interests. If she chooses the latter, she opens herself up to the Malleon criticism where unsupervised managers can use their economic influence, either alone or in a coalition, to pressure the passing of unreasonable laws that favor them over the workers. In either case, it seems that whoever holds the power in the firm can use that power for unreasonable gains.

The property-owning democrat has a rebuttal for my arguments so far. The picture I have painted seems bleak, as workers may have little to no voice in the firms for which they work. Yet, my interlocutor would say that workers have a voice through a strengthened power of exit. Because everyone in a property-owning democracy has shares in firms such that they receive a passive income, workers would be willing to take more risks in leaving firms that they find unreasonable and move towards more reasonable firms. As Robert Taylor says, property-owning democracy is neutral to various organizations of firms as it provides "reasonable opportunities by means of competition and 'capitalist' demogants to create, join, or exit any of them."<sup>52</sup> So, it would seem that an empowered right to exit thwarts the possibility of managers and shareholders to act unreasonably towards their workers.

My first issue with a strengthened power of exit is that it is not always usable. For example, imagine that for one reason or another, there is an economic downturn in a property-owning democracy. Some firms end up doing worse while others remain unscathed. Imagine further that some workers own shares in now poorly profitable firms while working in unscathed

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<sup>52</sup> Robert S. Taylor, "Illiberal Socialism," *Social Theory and Practice* 40: no. 3 (July 2014), 445. The term "capitalist demogants" here refers to policies such as distributing shares among the citizenry as in the case of property-owning democracy or distributing investment portfolios like the one discussed by Ackerman and Alstott, *The Stakeholder Society*.

ones. Such workers' passive income decreases as the result of owning shares in unlucky firms, thus decreasing their strength of exit. Seeing this, the shareholders of those unscathed firms can impose more unreasonable conditions, knowing that the workers in those firms would hesitate to leave. In other words, the reasonable conditions in a workplace are immediately ejected as soon as it becomes profitable for shareholders. And, if the economic downturn is massive and stretches over a long period of time, there could be serious consequences for the stability of the regime.

The above scenario need not involve rational egoist shareholders. In fact, the above problem can arise in a society that already has citizens that accept the principles of justice. The point has been to show that there will always be a tension for shareholders between acting rationally, in self-interest, or reasonably, for the interest of others. In special circumstances, such as in market downturns, acting reasonably can impose excessive strains of commitment in light of the benefits of acting unreasonably. In these circumstances a strengthened power of exit might not be enough to prevent shareholders or managers from making unreasonable decisions.

A related worry that I have with a strengthened power of exit is that it falls short of accomplishing property-owning democracy's goal of eliminating class distinction.<sup>53</sup> On the face of it, everyone is similar in that they may work in whatever firms they want and can leave easily because of their passive income. Yet, within the workplace the class distinction is maintained. There are still those who make decisions about how the firm is run (either shareholders or managers), and others who must abide by those decisions and work. There is a clear distinction

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<sup>53</sup> Krouse and McPherson believe that through property-owning democracy's wide decentralization of property, distinctions between laboring and capitalist classes would disappear. See Krouse and McPherson, "Capitalism, 'Property-Owning Democracy' and the Welfare-State," 83.

between the two camps. My worry is that a strengthened power of exit will not be able to prevent class antagonisms from arising within the workplace.

In a way, the power of exit gives workers a “voice” in their firm by allowing them to leave should conditions in the firm reach an unreasonable point. In this way, decisionmakers within the firm are incentivized to act reasonably on threat of workers leaving. Yet, quitting a job is not an easy choice to make, nor should it be done at the first sign of unreasonable management. A strengthened power of exit will not prevent managers from making unreasonable decisions full stop, and because of this, class antagonisms could still foment. After several unreasonable decisions, workers may view their managers as unreasonable in that they fail to propose fair terms of cooperation. If this occurs, workers may likewise wonder why they ought to provide fair terms of social cooperation or abide by others’ terms. Thus, antagonisms fester, preventing the fostering of reasonableness and developing unreasonableness. Ultimately, a worker would give up on cooperating as whole and leave the firm.

Before it gets to the point where workers start leaving because of unreasonable conditions, one might wonder whether there are alternative actions workers can make to preserve reasonable conditions. For example, they could form a strike, or notify a union or governing body that they are being treated unfairly. Yet such actions would only further bring about animosity between workers and managers. Thus, I think, my objection still stands. While class distinctions between workers and capitalists on a society-wide level may disappear in a property-owning democracy, the class distinctions between workers and managers within a firm are preserved. A strengthened power of exit does not eliminate this distinction, and thus an area where unreasonableness can grow is maintained.

To conclude, property-owning democracy leaves room for unreasonable attitudes among individuals to grow and fester, which can threaten the stability of the regime. Shareholders, in their desire for money, can take unreasonable actions on the workers to extract more money, and managers can use unreasonable means to achieve their own goals. Furthermore, the strengthened power to exit of the workers is not enough to prevent the growth of unreasonableness. Thus, it seems, liberal market property-owning democracy sits in a precarious position. If, then, a liberal socialist regime can prevent unreasonable attitudes in individuals from taking hold easier than a property-owning democracy can, we ought to prefer the former over the latter. But before this can be shown, we ought to consider an alternative formulation of property-owning democracy, democratic corporatism, and see if it fares any better in promoting reasonableness and discouraging unreasonableness.

#### **IV. Democratic Corporatist Property-Owning Democracy and Reasonableness**

Recently, Waheed Hussain has proposed an alternative formulation of property-owning democracy that holds many similarities to liberal market property-owning democracy with some important differences. Democratic corporatist property-owning democracy (from here on simply democratic corporatism) is similar to liberal market property-owning democracy in that they both include, “private ownership of the means of production, protections for the basic liberties, an education system designed to minimize the effects of class origin and family background, and a system of taxation and inheritance designed to break up the large concentrations of wealth that may emerge in any generation.”<sup>54</sup>

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<sup>54</sup> Hussain, “The Most Stable Just Regime,” 413.

Where democratic corporatism differs from liberal market property-owning democracy, however, is that both attempt to democratize the economy in different ways. The latter does so by distributing the ownership of the means of production across a wider range of citizens while the former focuses on the following two proposals:

- (i) Foster the formation of a limited number of secondary associations to represent the perspectives of major segments of the population in various rule making forums.
- (ii) Take steps to ensure that change to the rules of economic competition come about through a process of deliberation and reasoned agreement among the relevant associations.<sup>55</sup>

Hussain gives the example of Germany's "codetermination" system as an imperfect example of democratic corporatism. Under such a system, large firms must reserve half of the seats of supervisory boards to labor representatives, allowing for the remaining seats to be filled by private shareholders. For democratic corporatism, the central focus is not the decentralizing of the means of production so that there are more capital owners in society, but rather that economic decisions are made in a different way.

Much of Hussain's argument for supporting democratic corporatism over liberal market property-owning democracy is similar to my own arguments in section III. Liberal market property-owning democracy has a difficult time motivating reasonableness in the firm when rational and reasonable interests conflict, stifling the deep moral acceptance of the ideals of justice as fairness, and thereby destabilizing the regime.<sup>56</sup> Yet, the arguments Hussain presents also seem to favor a liberal socialist regime filled with worker-coops in the same ways that they favor democratic corporatism. While Hussain spends a great deal discussing how democratic

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<sup>55</sup> Ibid. 414.

<sup>56</sup> Ibid. section 3.

corporatism is better than liberal market property-owning democracy, he says little about how democratic corporatism is better than liberal socialism.<sup>57</sup>

A more hard-hitting issue I have against democratic corporatism is that, like liberal market property-owning democracy, it fails to wholly erase class antagonisms in society. Democratic corporatism instead opts to limit such antagonisms by giving labor representatives seats on the board of directors. Thus, the board of directors in a firm under democratic corporatism is filled with managers who are either elected by private shareholders for the purpose of extracting more profits, or elected (either directly or indirectly) by the workers to guarantee amicable conditions and pay for the workers of the firm, and the community as a whole. There will always be a faction of managers elected by private shareholders as democratic corporatism agrees with liberal market property-owning democracy in guaranteeing private ownership rights. In cases where a rational profit-driven motive conflicts with a reasonable worker-condition-driven motive, there will be conflict over what decision to make among the managers. For example, it might be the case that reducing the amount of inspections of dangerous equipment per year may save the firm money but increase the likelihood of work-related accidents. Labor representatives would vote in favor of workers and private shareholders would vote in favor of profits.

On some occasions, the labor representatives will win out and implement a decision that workers favor. Other times, the private shareholders succeed in implementing a decision that workers do not favor. In such cases, workers may feel as if they got the short end of the stick. That is, their managers failed to show them reciprocity and the labor representatives failed to ensure that the workers are treated with reciprocity. Such interactions could cause individuals to

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<sup>57</sup> Hussain does provide one argument towards the beginning of the paper against an economy of worker-managed firms. I'll discuss it in more detail in section V.

be unreasonable, or at least fail to encourage them to be reasonable. Recall that an individual is reasonable when they propose fair terms of social cooperation, *provided others are willing to do the same*. If workers feel that their managers are not willing to provide fair terms of social cooperation and abide by them, workers would rightly wonder why they should do the same.

Another way to see this is to notice that democratic corporatism's solution to the problem of potential domination by shareholders is to create a balance of powers between shareholders and labor representatives. Liberal market property-owning democracy and liberal socialism attempt to remove class distinctions by making everyone a capital holder in some way, but democratic corporatism does not do this, instead opting to equalize the power between various classes. Hussain believes that this would bring about stability for the right reasons because "workers, managers, and owners in an industry would participate in rule-making activities that would structure economic competition between firms," and such participation would encourage citizens to be reasonable.<sup>58</sup> Yet, by doing so, democratic corporatism keeps potential class animosity. And if this is the case, then intra-firm politics can quickly become an "us vs. them" game with shareholders on one side and labor representatives on another. And if there is class antagonism, it is difficult to see how individuals on different sides would willingly and genuinely propose fair terms of cooperation. I use the term "genuinely" here to point out that ultimately, if the firm is to survive, shareholders and labor representatives would have to come to terms that both would accept. Yet, these terms would not be reached from points of reasonableness and reciprocity, but from self-preservation. Again, there doesn't seem to be strong motivations to become reasonable outside the threat of the dissolution of the organization.

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<sup>58</sup> Ibid. 422. While this quote is referring more so towards inter-firm competition, I don't think Hussain would have a problem in saying that workers and owners could participate in rule-making activities within the firm as well.

On top of this, when decision-making is so antagonized between owners and labor representatives that the firm is being threatened with dissolution, the owners will always win. This is because the owner or owners have capital and can survive on it after the firm fails. Workers, however, are sustained by the wages they earn working at the firm, and such wages would disappear if the firm fails. Thus, the worker and the labor representative are in a more dire situation than the private owners and will thus cave in more readily to the demands of the owners. Furthermore, this is more likely in democratic corporatism than in liberal market property-owning democracy because at least in the latter, there was a strong power of exit due to each citizen having a portfolio of firm shares. In democratic corporatism, however, there might be welfare that would give some strength of exit, although it would be nowhere near as robust as liberal market property-owning democracy.

The above possibilities have implications for reasonableness in wider society and the upholding of a reasonable overlapping consensus. Aside from the family, the workplace is the association in which most adults spend most of their lives. If one sees no reason to be reasonable in firms, or if one feels like they are not treated with reciprocity in them, it is difficult for me to see how one would come to deeply hold the ideals of justice as fairness in wider society. That is, ideally, when citizens undergo political deliberation, they share the same sort of goal of, say, a just society where individuals can fully exercise their two moral powers. Deliberation involves figuring out how to get to such a just society. Economic deliberation within firms in democratic corporatism, however, is not like this. Shareholders and labor representatives can have different, and possibly contrary, goals of, for example, profits and worker satisfaction. With such a stark difference between political and economic deliberation, it is difficult to see how one could

translate into the other. Thus, firms, where individuals spend most of their waking lives, would be organizations that, at best, fail to give reasons to be reasonable in the wider context of society.

Thus, to conclude, I have given some reasons to be skeptical about how effective democratic corporatism would be in encouraging reasonableness and discouraging unreasonableness among individuals. Whether or not democratic corporatism is a better option than liberal market property-owning democracy, it remains to be seen whether liberal socialism is better than both regime types. In the next section, I will examine liberal socialism and see whether it encourages reasonableness and discourages unreasonableness better or worse than the two variants of property-owning democracy discussed so far.

## **V. Liberal Socialism and Reasonableness**

Recall that a liberal socialist regime differs from a property-owning democracy in that all the socially significant means of production are socially owned. What *significant* here means is vague, although one definition might start with the claim that socially significant means of production are ones that can have a noticeable effect on the economy or in people's lives. William Edmundson, perhaps the most well-known proponent of Rawlsian liberal socialism, believes that "the socially significant means of production" refers to the "commanding heights of the economy," – those parts of the economy that most citizens, most of the time, need access to in order to be productive members of society.<sup>59</sup> While I agree that the commanding heights need to be socialized in some way in a liberal socialist regime, I think we need to go farther in order to secure the promotion of reasonableness.<sup>60</sup> Paul Weithman has a similar critique of Edmundson's

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<sup>59</sup> Edmundson, *Reticent Socialist*, 39-42.

<sup>60</sup> For more, see Paul Weithman, review of *John Rawls: Reticent Socialist*, by William Edmundson, *Notre Dame Philosophical Reviews*, March 2019, <https://ndpr.nd.edu/news/john-rawls-reticent-socialist/>.

insistence that only the “commanding heights” of the economy should be socialized. He notes that under this narrow definition, major firms such as Amazon or Walmart will be left relatively untouched, which can obviously lead to less than just circumstances.

My view of liberal socialism begins with Edmundson’s viewpoint, but expands it to include Weithman’s concern. Thus, I see liberal socialism as a mix of three property-types: first, the “commanding heights” must be nationalized as Edmundson suggests. Second, the majority of the economy that falls outside the commanding heights should be worker-cooperatives, including large corporations like Amazon and Walmart. Lastly, private firms may exist only in cases where the market is too niche for a large firm to exist, or where the firm has only a few employees. Because worker-coops are the central economic unit in liberal socialism, I will focus on them in this section. As will be show, worker cooperatives have important implications for reasonableness and stability.

One problem that faced property-owning democracy was that individuals could be motivated by money in such a way that they have an incentive to behave in an unreasonable manner. The motive of money does not outright disappear in worker co-operatives under a liberal socialist regime, but it is balanced by other motives. The most important motive that offsets money is a concern for the community. This is illustrated by the statement of co-operative identity by the International Co-operative Alliance, one of the oldest and most widespread co-operative federations. The 7<sup>th</sup> principle reads, “Co-operatives work for the sustainable development of their communities through policies approved by their members.”<sup>61</sup> This

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<sup>61</sup> International Co-operative Alliance, *Guidance Notes to the Co-operative Principles*, (2017), 85. For this paper, I take a community to be the people who live in a region of space.

development involves a commitment to peace and social justice, concern for employees and young people, sustainable economic development and environmental sustainability.<sup>62</sup>

A critic might argue that the above principle that co-operatives work for the sustainable development of their communities is nothing more than a normative ideal and that, although it would be great if worker co-operatives functioned in such a way, they need not. And further, there is no reason to think that private firms cannot also follow this principle. Of these two statements, I agree with the latter, but disagree with the former. That is, private firms can follow the principle, although they need not, while worker co-operatives, by their very nature, must follow the principle. This is because workers have a direct say, by electing their managers, in how the firm will be run. And furthermore, workers will come to hold differing views about how the firm ought to be run.<sup>63</sup> Some may view environmental protection as a key issue and will vote for a manager who agrees with them, while others would prefer increasing the workforce to alleviate poverty in their community. As a manager, to be elected, one must usually appeal to the greatest number of workers. And to do this, one must respect the values and tackle the issues that various individuals hold.

To see this more clearly, suppose we have an election for a new manager in a worker co-operative that is sustainable and doing well. Of the hundred workers, an individual must be chosen who will steer the overall course of the firm until the next election. In worker co-operatives, if one wants to be elected as manager of a firm, one must put forth proposals that would appeal to as many workers in the company as possible. That is, in order to be elected, one's reasons for one's proposals would need to be justifiable to most workers. The individual

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<sup>62</sup> Ibid. 88-92.

<sup>63</sup> This is, Rawls holds, the fact of reasonable pluralism. It will always be the case, absent state suppression, that in a democracy people will come to hold different but reasonable views.

whose proposal is justifiable to the most workers will (usually) win the election. I take it that workers would be more invested in determining who will manage them than, say, political elections as intra-firm elections have a much more direct and obvious impact on workers' lives and the lives of others. Thus, workers would be more aware of the issues of various manager candidates and be more motivated to hold accountable their managers.

Granted, the newly elected individual need not actually be reasonable deep down. What matters is that for that individual to maintain power, they must (usually) act reasonably – they must take into account the wishes and values of their workers. Put another way, elections in worker co-operatives make rational and reasonable actions coincide. If an individual wishes to become the leader of a firm, she would need to garner enough votes to win. The rational thing to do to get votes would be to run on a platform that appeals to as many workers as possible. And by appealing to a vast number of workers, the future leader's agenda considers other workers' wants and wishes. That is, the future leader becomes more reasonable. The rational thing to do, in this case, is to be reasonable. While I don't think this scenario will play out exactly as stated above each time, I do think that worker-cooperatives are more likely to have reasonable managers than traditional private firms. This conclusion is all that is needed to support the view that a liberal socialist regime would help foster more reasonableness than property-owning democracy.

Recall the discussion about Titelbaum's view on the scope of reasonableness in section I. He argued that in order for stability to be guaranteed, citizens must adopt a general ethos in their lives that mirrors the two principles of justice. This contradicts a strict Rawlsian interpretation that argues that reasonableness is only crucial in the political sphere to maintain stability. As can be now seen, worker-coops can help make a middle-ground between the two positions. I believe

reasonableness needs to be more pervasive in society than just in the political sphere but need not extend to all aspects of life. Worker-coops, by their function, help to expand the scope of reasonableness to another area of potential domination – the workplace. A liberal socialist does not need to assume a general ethos of justice in order to get worker-coops to be reasonable. As explained above, anyone who pursues their own end of becoming a manager, of holding economic power over others, must justify that power to the individuals subject to it. In order to maintain the pursuit of that end, a manager must constantly act in accordance with the will of the workers.

One might wonder whether the rational and reasonable similarly coincide in a property-owning democracy. I do not think so. First, there is no guarantee that the shares an individual owns in a property-owning democracy are from a local firm. The case may easily arise where an individual owns shares in a company across the country. In such a case, the individual has limited motivation for maintaining the welfare of workers in the firm. When it comes time to elect a board of directors, the individual's primary concern will be money. Second, even if the shares were from a local company, the shareholder is not accountable to the workers of the firm. Should the shareholder care little about the environment, she can approve of proposals (along with other shareholders who may not be local) that destroy the environment for the sake of profits. So long as the shareholder's actions aren't so unreasonable as make most of the workers leave the firm, the shareholder may act as she wants. The problem is thus two-fold in a property-owning democracy: there is little motivation for shareholders to be reasonable, and there is little redress the workers can take outside of leaving the firm to prevent unreasonable proposals by shareholders.

Both of these problems do not arise in worker co-operatives. First, the shares that one owns in a company will always be local, as those shares belong to the company that one works at. Furthermore, the shareholder has a motivation to guarantee that oneself, one's workplace, and one's community succeed in the future. Thus, the shareholder will use the power of the shares to further the success of oneself, the workplace, and the community by voting for managers that promise to do those things. This would therefore lead to a more reasonable firm, whose actions can be approved by the community. The second problem also does not arise. If the manager of the firm begins to take unreasonable actions that actively harm the community, the workers have an avenue of redress. Namely, they can invoke the power of their shares to remove the manager and elect another one who may better align with the values of the workers and the community. And they can do all this without leaving their job. Therefore, both problems of unreasonableness that arise in private firms do not occur in socially owned firms.

Another thing I wish to discuss in this section is how a liberal socialist regime creates stability for the right reasons. One central problem that I pointed out in a property-owning democracy was that there was potential for stability for the wrong reasons because shareholders could hold unreasonable views separate from the political conception of justice in society, and yet endorse the society they live in. As soon as it becomes unprofitable to hold that political conception of justice, it is abandoned at the cost of stability. This is the case in property-owning democracy because individuals hold two separate roles at different times: the role of shareholder and the role of worker. During the productive part of the day, individuals act as workers in a firm, while outside of the firm they occasionally act as shareholders in other firms and decide on company policy (say casting a vote once or a few times a year for the board of directors). These

two roles never overlap except on rare occasions where an individual has shares in a company that she works in.

In a liberal socialism regime, the opposite dynamic exists, wherein the role of shareholder and worker always overlap. In worker-cooperatives each individual acts as a worker during the productive part of the day and can simultaneously decide company policy through holding shares in that firm. Whereas in a property-owning democracy individuals are (usually) workers and shareholders in separate spheres, all individuals in a worker co-operative hold the same worker-manager role. Thus, the workers *qua* members of the firm are all equal. And it is through this equality in the firm that stability is attained for the right reasons. As mentioned earlier in this section, individuals can only become managers in a firm by being reasonable. And it is through the positive reinforcement of reasonableness that individuals will continue to be reasonable in the public sphere, outside of the firm. Writing about the effects of worker-cooperatives, Gretchen Spreitzer states, “when employees can participate and have a say in governance issues, they are likely to feel respected and appreciated, and thus be further attracted to participative leadership in other settings, whether at work or in civic or governmental domains.”<sup>64</sup>

In a property-owning democracy, it was possible for a shareholder/manager to impose unreasonable conditions during an economic downturn, thus threatening stability. In a worker co-operative, this is structurally impossible as workers will always have the right to remove a manager should she impose unreasonable conditions. The workers, in other words, always govern themselves, and because of this, they would naturally support reasonable conditions inside the firm.

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<sup>64</sup> Gretchen Spreitzer, “Giving Peace a Chance: Organizational Leadership, Empowerment, and Peace,” *Journal of Organizational Behavior* 28 (2007), 1083.

The final point I wish to discuss is a possible objection of liberal socialism from the perspective of property-owning democracy. While I have stressed so far that reasonableness will be promoted within a firm, between workers and managers, more so than in a property-owning democracy, I have not discussed the relations that firms may have between one another in the larger society. And one might worry that unreasonableness can grow in relations that firms have to each other or to the broader community. For example, larger firms may drop their prices drastically and stay afloat on reserve income in order to bankrupt any competition. Property-owning democracy has a clear solution to this problem: because individuals work in one firm and own shares in multiple others, they would be hesitant to promote unreasonable policies that may harm other firms, especially ones they have shares in. That is, there is a rational reason to be reasonable. The objection from the property-owning democrat is, then, that there is no similar mechanism in liberal socialism.

A very similar worry is stated by Hussain when he writes, “Even if each firm in a worker-managed economy is run by its employees, these firms will have to compete with each other, and competitive pressure will greatly narrow the scope of democratic decision making.”<sup>65</sup> That is, market pressures among firms are going to limit the viable options available for firms on how to conduct business. In this way, deliberation about what to do regarding relations with other firms or the community will fail to foster reasonableness as workers may see their decisions as merely “what is necessary for the firm to survive” and not as a real proposition of fair cooperation. Putting the above two points together, the worry is that inter-firm relations in a liberal socialist regime can both harbor unreasonableness and fail to promote reasonableness.

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<sup>65</sup> Hussain, “The Most Stable Just Regime,” 415.

While the above seems to be a problem at first, there is, I think, a solution. Namely, liberal socialism can borrow some policy proposals from democratic corporatism to prevent unreasonableness from arising. Importantly, I think that both principles (i) and (ii) of democratic corporatism can be applied to worker-coops in a liberal socialist regime without adding the other features of property-owning democracy. Recall, the two features are:

- (i) Foster the formation of a limited number of secondary associations to represent the perspectives of major segments of the population in various rule making forums.
- (ii) Take steps to ensure that change to the rules of economic competition come about through a process of deliberation and reasoned agreement among the relevant associations.<sup>66</sup>

That is, we can allow for some secondary organizations to play an important economic role in interfirm decisions. In defining worker-coops in section II, I stated that a central feature of such firms is that “ownership is widely distributed among the workers, who own much of the voting stock.”<sup>67</sup> Using this definition allows a minority of voting shares in worker-cooperatives to be controlled by secondary associations such as unions or the state. By unions, I have in mind broad groups that represent large portions of the working population (e.g. the steel mill union, the computer electronics union, the airline union, etc.). In doing so, workers in worker-coops would still be able to by and large control the direction of the firm, but there would also be a voice for other major segments of the population, be it the community as a whole or a union of workers in similar fields. How much of the voting stocks should be reserved for such secondary associations is up for a matter of debate. Regardless, if this proposal is adopted then worries about possible problems of unreasonableness arising between firms, or between firms and the community,

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<sup>66</sup> Ibid. 414.

<sup>67</sup> Jones, “American Producer Cooperatives,” 37.

should be rare or nonexistent. In this way, I think that liberal socialism can be as effective at de-incentivizing unreasonableness between firms as property-owning democracy.

One might worry whether adopting these proposals would preserve the character of worker-coops. That is, if the central principle of worker-coops is the ability for the workers to determine how their firm is run, then giving some of that control to unions or the state (that is, non-workers) may run against a worker-coops original intentions. I think, however, that a healthy worker-coop economy can be maintained, even if the above proposal is adopted. While the above proposals may eliminate some control of the workers, it is by no means necessary that much of the firm's control is given to secondary associations. Briefly, here are two ways in which this can be seen:

First, there can be limits placed on secondary associations in what they may vote on. Unions or the state need not have a part in deciding how a firm is internally organized. So, for example, it is wholly in the control of the workers in the firm to decide how workers should be paid, what sorts of jobs are in the firm, how the supervisor-supervisee relationship works, when elections happen and in what way, etc. Furthermore, regarding decisions on inter-firm relations, secondary associations need not have much voting power. What is key for such associations is that they provide information to workers to better make decisions. The role of secondary associations is to help workers understand the consequences of their decisions for the rest of the community. This can be provided without giving these associations excessive power to shape inter-firm relations.

On a related note, secondary associations should not be seen as inhibiting decision-making between workers in a firm but bolstering decision-making among workers in several firms. That is, because secondary associations can provide information about the status of other

firms or the community, they can be helpful arbiters in a firm's proposing fair terms of social cooperation to the community. For example, with the help of a union, two firms that once competed may shift production to supply complementary goods. Likewise, a firm may better service the community after learning important information from a secondary association. Through both proposed measures, a worker-coop society can foster reasonableness in inter-firm relations. Therefore, the worry that such an economy could not do this disappears.

## **Conclusion**

To conclude this paper, I wish to paint a very broad picture of the organization of firms in liberal socialism as compared to property-owning democracy. In section III I highlighted several problems regarding the organization of firms in property-owning democracy as decentralized private shareholders. These problems left room for unreasonableness in individuals to grow and fester. Likewise, in section IV, I expressed my reservations about a democratic corporatist property-owning democracy. Lastly, in section V, I showed how these problems do not arise in a liberal socialist regime that structures firms as worker-coops. I believe that worker-coops do a better job of fostering reasonable individuals than private firms. Furthermore, I showed how a liberal socialist regime could be as good as, if not better, at promoting reasonableness between firms than a property-owning democracy. We are left with the picture that liberal socialism, *ceteris paribus*, does a better job at promoting reasonableness than property owning democracy.

I now return to the broad argument I sketched out in the introduction. By now, I hope to have proved premise (4), that liberal socialism is better at promoting reasonableness and discouraging unreasonableness than property-owning democracy. Furthermore, I have also

argued (mainly in section I) that reasonableness is an important factor to the stability for the right reasons of a regime. It follows that, all things being equal, we ought to prefer liberal socialism over property-owning democracy because it can better realize a society that is stable for the right reasons.

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